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TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [JO](#)  
SUBJECT: Social Security Corporation Pursues New Investment  
Strategy Following 25% Losses in Value

Refs: A. Amman 2378

- [1](#)B. Amman 2125
- [1](#)C. Amman 1690
- [1](#)D. Amman 1027
- [1](#)E. 07 Amman 4378
- [1](#)F. 07 Amman 3812

[1](#)1. (SBU) Summary: Jordan's Social Security Corporation (SSC), faced with a 25% loss in value of its capital fund, is looking to shore up its investment strategy by having its investment arm, the Social Security Investment Unit (SSIU), form and finance three companies to run its interests in the tourism, infrastructure, and development zone sectors. The move is noteworthy in that it reflects recognition by the SSC of the precarious financial risk that the SSC is exposed to. It remains uncertain if the SSC will be able to sustain its strategy given the historic tendency of the Government of Jordan (GOJ) to use SSC funds to finance GOJ capital expenditure projects and the current budget shortfalls facing the GOJ. End summary.

#### 25% Losses Drive Need for New Strategy

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[1](#)2. (SBU) Jordan's Social Security Corporation (SSC) is reassessing and amending its investment strategy to ensure long-term sustainability for its fund in the face of a 25% loss in capital value largely due to Amman stock market decreases since 2008. Until recently, 58.6% of the SSC's total investments were with the Amman Stock Exchange (ASE), which suffered a close to 42% drop in its share price index between August 2008 and end of August 2009, as a result of some Ponzi schemes and the impact of the global financial crisis. The SSC's total asset value dropped from an all-time high of about \$8.8 billion in July 2008 to \$6.5 billion by the end of June 2009, a greater than 25% decrease, \$2.3 billion in total, over 12 months.

[1](#)3. (SBU) The SSC's new strategy aims to reduce exposure at the Amman Stock Exchange (ASE) and diversify its portfolio by having its investment arm, the SSIU, enter international markets and restructure the management of its investments by forming three new holding companies that would look after its investments in tourism, infrastructure, and development zones. The companies would be specialized in their sectors and would have dedicated management and

technical advisory boards to assist in decision making. Faris Sharaf, Chairman and CEO of the SSIU (and former Deputy Governor of the Central Bank of Jordan), told EconOffs that he believes that the new structure should make monitoring, governance, transparency and accountability easier and more effective where these sectors of SSIU investments are concerned.

#### Cautious Off-Loading of Shares

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¶4. (SBU) The SSIU portfolio currently includes 65 companies listed at the ASE divided into two categories: the strategic and trading portfolios. The SSIU will be maintaining its shares in 30 "strategic" companies and is planning to sell shares in another 35 in a cautious manner so as not to undermine the market. The strategic portfolio is valued at \$3.56 billion. Of that, 29% is concentrated in 12 companies, including the Jordan Telecom Group, the Arab Bank PLC, the Arab Potash Company, the Jordan Lafarge Cement Factories Company, the Jordan Press Foundation Al-Rai, and the Jordan Petroleum Refinery Company. The trading portfolio includes short term investments and investments in ailing companies that SSIU wants to off-load. Banking sector analysts have told EconOffs that the SSIU realizes the ASE could not handle the dumping of a portfolio as large as SSIU's without causing a panic in the market. They report that while the SSIU has judiciously sold shares of some companies, it has also re-purchased limited shares once the share price dropped so that the number of shares held would somewhat mask the decrease in portfolio value. Another SSIU method to diversify its investments is through the use of private bilateral deals with companies and through strategic partnerships away from the trading floor, an approach used with Jordan Manganese, Jordan

Masaken for Land and Industrial Development Project, Arab Engineering Industries and others.

#### Luxury Tourism Projects in the Works

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¶5. (U) The first company for which the new strategic vision is clear would look after SSIU's already-significant investments in the tourism sector. SSIU owns shares in many of the hotels in Jordan. SSC is a majority shareholder in two of the main hotel tourism companies in Jordan: Zara Investment Holding and the Jordan Hotels and Tourism Company. These two companies own and manage hotels in Amman, Aqaba, the Dead Sea, and Petra including Jordan's Intercontinental, Crown Plaza, Holiday Inn, Movenpick, and Grand Hyatt hotels.

¶6. (U) The SSIU is looking to increase its income in the tourism sector. In a related deal concluded in April 2009, the SSC and Dubai Capital broke ground for a \$100 million project in Dibeen for a luxury hotel and 24 luxury villas, located close to Jordan's largest pine forest, located just south of Jerash, a tourist site boasting Jordan's best-preserved Roman city ruins. Another proposed project would build two five-star hotels and 200 chalets in the Al-Zara area on the southern shore of the Dead Sea as a joint venture with Jordan Dubai Capital. SSIU is also planning a feasibility study to develop a new tourism project in Aqaba that would include commercial, tourist, cultural and residential facilities.

#### Jumping into Infrastructure Megaprojects

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¶7. (SBU) The second SSIU holding company will focus on infrastructure projects with a proposed capital fund for investment totaling between \$100 and \$150 million. This Company would administer SSIU's 9% stake in the Central Electricity Generating Company (CEGCO). CEGCO is financed by the Government of Jordan (GOJ) and its 40% stake and a 51% stake held by ENARA, a joint venture between Jordan Dubai Energy from the UAE, the Malakoff firm of Malaysia, and Athens-based Consolidated Contractors Company.

¶8. (U) The SSIU infrastructure company would also examine other projects that are currently in the pipeline including purchasing a strategic share of the Disi water project from Turkish GAMA, and purchasing a strategic share in the Samarah power generation project that has been awarded recently to a Korean Consortium. The Samarah

project includes setting up two gas turbines with a total generating capacity of 285 MW costing \$195 million in phase one, with an expansion capacity reaching 900 MW to 1000MW in later phases (ref A). The project would be located in Qatraneh and potentially be the largest power generation facility in Jordan. SSIU has also received approval from the GOJ to hold 9% of the shares of a new proposed fuel distribution company once the Jordan Petroleum Refinery Company finalizes its deal with a strategic partner (refs B and C). Another important project under consideration is for a new Amman Exhibition and Convention Center on Amman's Airport Road which is still in the planning phase after two years of discussion on the estimated \$1 billion project.

#### Claiming a Stake in Development Zones

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¶9. (U) The third major SSIU holding company was registered in September 2009 with \$140 million in capital to administer SSIU's interests in its investments in economic development zones in Irbid and in Mafrag, a town in the northeast of Jordan located at a crossroads between Syria and Iraq. The development zone project proposal for Mafrag is valued at \$750 million and would include converting a military airport into a commercial/cargo airport. The SSIU would hold an 80% stake in the project while the Hashemite Fund would hold the remaining 20%.

¶10. (SBU) Comment: The SSC's change in focus to protect its investment revenues by creating dedicated holding companies to

manage parts of their investment fund is an important step. The SSC has recognized the underlining risk exposure in its preceding investment policy and is taking serious measures to adapt its investment strategy. In addition to this investment strategy, the GOJ has also pursued legislative reform of the Social Security Law to help save the SSC (further reporting septel). While the GOJ has been taking steps to impose budget constraints on its ministries and independent government entities, there have been historic examples where GOJ use of the SSC as its checking account continues to be felt. During the 1990's, the GOJ compelled the SSC to invest in 18 non-performing companies, which are still on the SSC's books and which continue to be non-profitable. The SSC is mindful of this risk and its new investment strategy could help it avoid further losses in value in the context of Jordan's tough budgetary times.

¶11. (SBU) Comment continued: While this SSC policy might seem to diverge from the trend toward privatization, the recalibration of SSC's investments should not be interpreted as the GOJ and SSC giving up on private firms or privatization (ref F). The SSC will remain a significant player in the ASE and will remain committed to much of its current portfolio in it. There are, however, politically important projects requiring large investments that the private sector is unwilling or unable to join such as the development zone in Mafrag. The government will continue to need the SSC to partner in those projects, which have an economic, political, and social impact on areas of Jordan that face high levels of underdevelopment and underemployment. End comment.

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